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How U.S. COTTON is sold for export

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PREFACE

Since the end of World War II, exports of United States cotton have fluctuated considerably each cotton season. In 1959-60 they are expected to be much higher than in 1958-59, when they showed a figure of 2,790,000 running bales. The highest export figure of the postwar period was reached in 1956-57 with 7,598,000 running bales; the lowest, in 1947-48, with 1,968,000. Stiff competition from foreign cotton and manmade fibers has been responsible for these fluctuations. Special United States cotton export programs have remedied this situation from time to time, but the position of the American cotton exporter has been difficult.

This paper is mainly based on normal times. However, it should be useful to those who want to know what is involved in selling United States cotton abroad. The author acknowledges the advice and suggestions of many people actively engaged in the cotton export trade, as well as some former cotton people now in government.

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HOW U. S. COTTON IS SOLD FOR EXPORT

By Guy A. W. Schilling
Cotton Division
Foreign Agricultural Service

ORGANIZATION OF THE U. S. COTTON TRADE

The U. S. cotton trade comprises all the firms or individuals handling the buying, selling, and shipping of cotton from the time it is ginned until it reaches the mill door.

The marketing of cotton begins, in many cases, almost as soon as lint cotton is baled at the gins, though some farmers retain possession of the bales until a later date. Frequently the bales are bought at the gin by ginners, country buyers for cotton merchants, mill buyers, and country merchants. If farmers who retain the bales do not put their cotton into the government loan, they may give samples of the cotton later to a spot broker in a bigger market for selling on a commission basis. Ginners who buy the cotton they gin may wait until they accumulate a certain number of bales before selling them to mill buyers, country buyers for merchants, and country merchants. Ginners may also give their cotton to spot cotton brokers for sale. Cotton in the hands of the country merchants is sold also to mill buyers and country buyers for merchants. Usually cotton bought by mill buyers is not further resold and finds its way into consumption.

Spot cotton brokers offer for sale cotton belonging to farmers, ginners, and, at times, to cotton merchants. The latter use a spot cotton broker to sell lots of cotton which they wish to dispose of locally. The main business of spot cotton brokers is dealing with actual cotton, i. e., selling the cotton on actual samples of each bale, but they also do business for cotton merchants on a forward delivery and "guaranteed through" basis. This means that cotton merchants may offer cotton for sale for later delivery through spot cotton brokers, with the quality and weights guaranteed through to destination. The outlets of a spot cotton broker are mill buyers and city buyers for cotton merchants.

The cotton merchants, who are the main subject of this discussion, do the bulk of the selling to U. S. mills and for export. Of course, they do some selling among themselves at times when the cotton needed cannot be found at the gins, with the farmers, or, today in particular, in CCC stocks.

After ginning, the cotton is compressed into flat bales of 12 pounds per cubic foot; the bales are usually shipped to a public interior warehouse for storing or for compressing in transit--to standard density (23 pounds per cubic foot) if the cotton is destined to a domestic mill, or to high density (33 pounds per cubic foot) if it is to be exported. Cotton delivered to a mill near a gin may be shipped as flat bales. Domestic mills require standard-density or flat bales. When a warehouse receives cotton for storage, the flat bales are sometimes compressed immediately to standard or high density in order to save storage space. All the warehouses at the ports have both standard-density and high-density presses; some in the interior have only standard-density presses. Merchants at times move cotton from several warehouses to one central one in order to concentrate their stocks and facilitate shipments of carloads.

The services performed at a warehouse, besides compressing and storing, include sampling, weighing, patching (repairing the cover of the bale and applying new cover, material, or patches or markers), marking (stenciling identification mark), banding, and replacing or repairing bands. The warehouses issue negotiable warehouse receipts for the cotton stored; these the owners of the cotton can use as collateral against loans on the cotton from the banks or the government. Also, title to the cotton represented by the receipt is frequently transferred from the original depositor to subsequent owners by the negotiator of the receipts. The warehouses attend also to loading of bales on railroad cars or trucks. Some of the merchants own warehouses which usually store cotton for other persons besides the owners. Most warehouses are bonded.

Cotton is an expensive commodity, and merchants handling large stocks require a great deal of bank financing. Usually the capital of a cotton merchant represents only a small fraction of the value of his total turnover. The banks are usually willing to finance a fairly large percentage (about 85 percent) of the value of a bale of cotton, but they keep a close check on the quality of the bales pledged as collateral. Payment for cotton sold to a U. S. mill is usually made by sight draft on the mill or by check against bill of lading and other documents. The cotton exported is usually paid for by sight draft against irrevocable letters of credit, though other terms might be used (see the section on sales terms). Cotton traded between merchants in the same locality is paid for by check against warehouse receipts or bills of lading. Cotton sold by farmers, ginners, and country merchants is paid for by check or sight draft against warehouse receipts or bills of lading evidencing shipment of the cotton to a warehouse or a mill.

Practically all cotton merchants and cotton brokers are members of the American Cotton Shippers Association, whose headquarters are located in Memphis, Tenn. The various areas of the Cotton Belt have their own cotton associations, as follows:

Georgia, Alabama, North and South Carolina, Virginia, Florida:
Atlantic Cotton Association, Atlanta, Ga.

Mississippi, Louisiana, Tennessee:
Southern Cotton Association, Memphis, Tenn.

Arkansas, Missouri:
Arkansas-Missouri Cotton Trade Association, Little Rock, Ark.

Texas:
The Texas Cotton Association, Waco, Texas

Oklahoma:
The Oklahoma State Cotton Exchange, Oklahoma City, Okla.

New Mexico, Arizona, California:
Western Cotton Shippers Association, Los Angeles, Calif.

These six associations are in turn affiliated with the American Cotton Shippers Association. This latter association has a great many associate members who are not cotton people but bankers, steamship companies, freight brokers, insurance people, warehouse companies, and the like.

WHO EXPORTS COTTON

U. S. cotton merchants do not all participate in the export trade. Some of them confine their business to selling cotton locally and to U. S. cotton mills. A few do only an export business. However, after World War II some cotton merchandising firms which had never exported before went into the export business. The International Cooperation Administration and Public Law 480 programs are probably responsible for this, because they have facilitated the financing of cotton exports abroad. The system of financing under these programs, when letters of commitment are used, has eliminated the risk to the exporter; finances are available at once, and the exporter does not need to wait for payment as he might have had to do before such programs were inaugurated.

For the purpose of this discussion, all cotton merchants who export at all will be referred to as "exporters."

The principal cotton markets where such exporters are located are: Atlanta, Ga.: Montgomery, Ala.; Memphis, Tenn.; Greenwood, Miss.; New Orleans, La.; Galveston, Houston, Dallas, Lubbock, and El Paso, Tex.; Phoenix, Ariz.; Los Angeles, Bakersfield, and Fresno, Calif. There are also some exporters in other cities located all over the Cotton Belt, from the East Coast to the West Coast.

Since this paper is to deal mainly with export trade practices, the activities of an exporter prior to offering cotton for export will not be discussed in detail except when they are important to a certain phase of the export trade. These activities, however, have been briefly discussed in the opening paragraphs of this paper.

It should be said at the outset of this discussion that not every cotton exporter covers all the available export markets for United States cotton or offers all varieties and growths produced throughout the United States. Some exporters concentrate only on certain areas or certain countries of the world; some, on certain United States growths. An exporting firm might sell only in a few of the 50-odd foreign countries using United States cotton. It is difficult and expensive to serve 50 or more foreign countries well. Some of these countries are small markets, and the cost of servicing them is prohibitive.

Today the number of bales exported annually by cotton firms varies from less than 1,000 bales per firm to well over one million bales. The number of firms exporting over 100,000 bales is small. The greatest number is to be found in the group exporting 15,000 to 100,000. A few, of course, export less than 5,000 bales.

Some exporters trade in export markets under trade names as well as their own. For a trade name, an exporter usually engages agents different from the ones he uses for his own firm. The main purpose of having trade names is to have wider outlets; an agent does not or cannot always sell to all clients in a country. There are many exporters, however, who do not feel that trade names are necessary.

Another kind of exporter who works with a very small staff or by himself should be mentioned. He buys cotton from merchants or exporters on the same terms that he sells it to foreign clients. He could be called either a buying or a selling agent, and makes only a commission on such sales. All the shipping documents are made out in his name. The quality, weight, tare, and so forth, are "guaranteed through" to destination by the seller. The buying agent pays the seller upon presentation of all the shipping documents and draws a draft, with these documents attached, on his foreign client. The turnover done on this basis is small compared with the exporters' direct business with foreign connections.

There are also some general import-export firms which handle all kinds of commodities and materials and which buy cotton for export on a "guaranteed through" basis, as above outlined, from merchants or exporters because they are not equipped to buy it firsthand in the country as regular cotton exporters do. Some of these transactions might at times be connected with a barter deal. Most of these firms are located in New York City.

ESTABLISHING CONNECTIONS ABROAD

The cotton export business involves greater expenses than domestic business before a sale is made because the greater distances involved mean higher telegraphic and telephonic costs and larger transportation expenses for trips and forwarding samples and types. To make a sale abroad, an exporter must establish a connection with an agent or merchant (importer) or mill. In new cotton-consuming countries it is difficult to find qualified cotton-selling agents; there direct mill connections may be established. Normally one trip or more abroad is necessary in order to establish satisfactory connections and learn about the usual terms of the trade in a particular country, the quality requirements of the mills, and the like. The foreign connection must be supplied with type samples if some business is to be done on exporters' private types instead of Universal Standards. If the exporter has to submit types to match specific requirements of a mill, he needs considerable time for their preparation and approval. The exporter may also want to prepare types to represent certain cottons he specializes in. A working agreement is usually signed between the exporter and the agent, foreign merchant, or foreign mill. This working agreement covers matters such as the rate of commission, an understanding about the method of offering, the telegraph code or codes to be used, the duration of the contract, and the expenses to be borne by each party. These arrangements require a lot of work and consume much time. Each exporter has his own ideas about the form of such an agreement, and there is no standard form of contract.

The large exporting firms may have their own branches or affiliates in some countries. Some firms have a central office in charge of all agents in the countries of a certain area. In the export trade most of the business is done through agents of the exporter's abroad, and only a small percentage of the business is done through direct connections with foreign merchants or mills. Since World War II, some countries have bought their cotton requirements through government agencies direct from the exporter. A direct mill business is often done in countries where the number of mills is limited or a new textile industry is being developed. To conduct a successful business abroad and keep the personal contact alive, regular trips are necessary. Of course, foreign importers and mill people also pay visits to the United States exporters.

The cotton export business involves a constant study of the prices of competing foreign growth like Mexicans, Brazilians, Central Americans, Syrians, and others, as well as of the financial position of the foreign cotton-consuming countries. In recent years United States foreign aid and surplus disposal programs have been of great importance to the United States cotton exporters, who closely watch the news from Washington about such programs.

Many United States cotton exporters also handle Mexican cotton. As a matter of fact, the bulk of the Mexican cotton export business is in the hands of United States cotton exporters. Most of Mexico's cotton exports go through United States ports, for example, Brownsville, Texas, and Los Angeles, Calif., though in recent years Guyamas and Mazatlan, on the Mexican west coast, have gained in importance as shipping ports for Mexican cotton. Mexican cotton is sold for export on the same terms as United States cotton.

METHODS OF OFFERING COTTON

When all selling arrangements have been completed, the exporter is ready to offer cotton to his agent, the foreign merchant, or the foreign mill, depending on the connection he has made in the foreign country. There are two kinds of offers: regular, or "good until cancelled," and special, or "good for a specified length of time." Instead of regular offers, some exporters send out quotation lists. Of course quotations are not firm offers but merely indications of price. Exporters also make offers "subject to confirmation." This happens when certain qualities are scarce or an exporter has the same qualities under offer elsewhere. Today actual business is mostly done as a result of special offers because of dollar shortages and keen competition from foreign cotton-growing countries. Therefore, foreign importers tend to buy the cheapest cotton available.

The present CCC export sales programs have changed--though perhaps only temporarily--the traditional system of offering cotton "on call" and making sales "on call." This is the practice where only premiums or discounts "on" or "off" a certain futures month for the various grades and staples are established, while the price of the basic futures month may remain unfixed until a certain time. This change is due to the fact that CCC sells its cotton at fixed prices, i. e., where the basis ("ons" or "offs") and the price of the basic futures month have both been established. "Fixed" prices are also called "final" prices. However, in order to describe the usual practices of the cotton trade, this paper will also mention "on call" business, because occasionally both export and domestic sales are still made on this basis. Even though most of the business is done today at fixed or final prices, the basis ("on" and "off" the futures month) remains important to the exporter or the cotton merchant in general, because he watches the changes in premiums and discounts ("ons" and "offs") for the various grades and staples very closely and thinks in these terms.

In addition to the price, all offers or quotations specify the quantity, the quality, the terms (delivery and payment), the shipment, the arrival or the delivery periods, and the period for which the offers are good.

Prior to the CCC export sales programs, most offers were made "on call." When a sale is made "on call" it is necessary to watch for the specified fixation time or the expiration date of the futures month. This means that the price of the basic futures month must be established at a certain time, or, in trade parlance, the price must be "fixed" or "called." Upon agreement between seller and buyer, the basic futures month before the price is fixed can be transferred to another one at the proper differences between the original and the new basic futures month. These differences plus the futures commission paid for the transfer of the futures contracts are reflected in the basis ("ons" and "offs"). This might happen if the buyer for some reason wants to postpone the fixing of the price of the futures month, as for instance when a mill has no yarn or cloth sale against a purchase of actual cotton. A mill would buy actual cotton ahead of a yarn and cloth sale, wishing to secure the basis (as premiums and discounts are called in the cotton trade) while it is low. On the other hand, if a mill considers the cotton futures month low, it would buy futures instead of actual cotton. The futures would then be sold when the mill buys spot (actual) cotton and it fixes the price of the futures month of its cotton purchase.

The seller (exporter) may give price-fixing instructions to the buyer for an "on call" sale; i. e., he may instruct the buyer to buy futures contracts through a certain futures broker when the price of the sale is to be fixed.

At times exporters allow a certain discretion (so many points less) on their offers to their agents. This is a concession in order not to lose a sale. The discretion is to be used only when absolutely necessary to close a sale.

Today actual business results mostly from special inquiries for which special offers have been made or from bids which have been received from abroad.

Regular offers or quotation lists are for cottons an exporter either already owns or feels he can buy in the market at a certain price. These offers show only the "ons" and "offs" for the various descriptions. It is usually the larger exporters who make regular offers. The exporter bases these offers on a price which he hopes will bring him his standard rate of profit. Regular offers or quotation lists are usually "good until cancelled." These offers or quotations are more or less an indication of going prices, but do not necessarily represent the lowest prices an exporter will accept. Therefore, very little business results from regular offers. With a large exporter these regular offers may include almost a complete list of all existing descriptions, which comprise grade, color, character, staple, Micronaire fineness, and Pressley strength specifications, plus his entire list of private types. These regular offers also state the premiums required for forward shipments up to 12 months or more. Thus it happens that "new crop" cotton is offered for sale before the crop has begun to be harvested and sometimes before it is planted. In prewar days, sales of cotton were made even 2 or 3 years ahead.

Today most of the cotton export sales are made on private types, either prepared by the mills or by the exporters. Most types incorporate the grade, color, character, and staple required for the specific type of work done. Exporters' types represent cotton they know certain mills require or represent certain kinds of cotton which cannot be well described in terms of universal standards for United States cotton. At times private types represent only "grade, color, and character" or "grade and color," and the staple is described in terms of official standards. In addition to these features, these types might also represent specific Micronaire or Pressley descriptions. When business is done on type, the type is sealed in the presence of both the buyer and seller or their representatives and used for arbitration purposes. Type business has proved to be very satisfactory, particularly if the types also incorporate staple, because in a type the buyer has before him all the characteristics of the cotton he wishes to buy. Since World War II, the U. S. cotton export business has gone more and more to private types.

With smaller exporters regular offers or quotation lists may represent only a limited range of descriptions or only the descriptions in which he specializes plus his private types. Some exporters do not offer cotton grown beyond the territory of their office or offices. As the cotton season progresses, the number of descriptions included in these regular offers or quotation lists is reduced as the supplies decline or the current crop deteriorates. By that time it is necessary to send out "new crop" offers.

Regular offers, which are also called offer lists, are communicated abroad either by airmail or by cable, depending on the urgency of the need for such offers. These regular offers are checked daily by the exporters and changes are made daily if necessary. These changes may involve raising or reducing the basis (premiums and discounts) for the various qualities, transferring the basic futures month to another month because of the expiration of the original basic futures month in case of "on call" offers, changing the shipment or delivery periods, altering the number of bales offered, eliminating offers for certain qualities unobtainable, and so on.

Special offers are more specific; i. e., they pertain usually to a specific client who requested an offer for a certain quality or qualities. Special offers represent also offers for cotton an exporter is anxious to sell. An exporter usually figures the price very closely when making a special offer; hence the price is lower than that of regular offers and may also be fixed; thus, the duration of such an offer is usually limited. Even the price of special offers may have to be changed if the market price of the qualities involved has gone up or down suddenly.

Special offers are made for "immediate" or "prompt" reply. "Immediate or prompt reply" means allowing sufficient time to send the cable, contact the buyer, and send a reply back, which in most cases can be achieved within 24 hours but seldom takes more than a week. Sometimes the buyer states that he wants to have the special offers good for a specific length of time.

Some smaller firms that concentrate on domestic business confine their export business to offering only when they have specific export inquiries. In other words, they do not make regular offers.

In pre-World War II days, exporters consigned cotton abroad in anticipation of a demand for certain qualities in a certain country for quick delivery or because some of them wanted to have stocks abroad to offer to foreign buyers to choose from (i. e., the buyer would take only the bales he approved). This practice has not yet been resumed to quite the same extent as before the war because war-risk insurance on stocks abroad either cannot be obtained for all countries or is very expensive. Consignments can become a burden when they do not move fairly quickly; it can turn out that the cotton is consigned to the wrong place, and storage charges are usually higher abroad than in the United States. Moving consignments from one country to another is expensive, and from one continent to the other, almost prohibitive. In recent years one of the main reasons for consigning cotton abroad has been the obligation of the exporters to sell the cotton they bought from CCC under the export sales programs within a specified period of time. Hence some of the exporters who had no actual export sales against a purchase of CCC cotton consigned it instead of keeping it in the United States and paying the difference between the export sale price and the domestic price.

Instead of using cable service some exporters use a teletype system with their foreign connections. To countries where there is no censorship, exporters use codes; some have their own private ones. The most popular cotton code is "Buenting's," made up by a German cotton man in Bremen. Others use English cotton codes such as "Bentley's." Coding a cable message requires experience and time, but in long messages like cotton offers the use of a code saves considerable money.

Offers contain the exact terms on which a sale is to be made. These terms vary with each country and with clients in the same country.

SALES TERMS

The basic terms of a sale contain the following main items: Quantity, quality, price, terms of delivery, destination, shipment or delivery period, insurance, payment, commission (not usually stated in sales confirmations), controllers, and various special clauses. In the following description of sales terms, small sections have also been included about hedging, futures, price calculations, weight, arbitration, and freight, which indirectly bear on the sales terms.

Quantity

This item is usually expressed in numbers of bales with specified weight limitations to assure a minimum and maximum weight. Often the quantity is expressed in pounds, kilograms, or metric tons.

Since World War II, many government programs, such as International Cooperation Administration and Public Law 480, have been instituted. Most of the time the allocation of these funds is made by the foreign government to the buyers in terms of monetary figures and not in terms of baleage or weight. Also, the availability of dollars in foreign countries not receiving United States aid establishes the quantity.

The most common bale unit traded in is 100 bales or multiples thereof, although smaller lots are not infrequent, particularly when specialty cotton (usually extra long staple cotton) is involved. However, when the allocation of funds is in terms of monetary value, the quantity of a sale may involve an odd number of bales.

Quality

Quality descriptions usually include the origin, for example, Memphis territory, Mississippi delta, Orleans/Texas, Texas, California, California/Arizona/New Mexico, or Georgia/Alabama--and sometimes seed--"ACALA," "1517," ACALA "442," in addition to the following:

a. Description in terms of Universal Standards for grade and color, and United States official standards for staple:

    Example: Universal Standard Middling Spotted one-inch staple.

b. Description in terms of private (exporter's or buyer's) type:

Example: Grade, color and staple equal to type BOND or Grade and color equal to type LEBRA one-inch staple.

c. Description in terms of USDA Form A Certificate:

Example: Universal Standard Middling one-inch USDA Form A Certificate class.

Form A is the classification of samples freshly drawn and submitted before shipment to a USDA classing office direct from a public warehouse at the request of the owner of the cotton or his agent. Such classification or comparison is evidenced by Form A Memorandum. Form A Certificate is today primarily used in some sales financed by the International Cooperation Administration and under Public Law 480.

During the past 10 years the quality descriptions of United States cotton sales have included more and more Micronaire and Pressley specifications in regard to fineness and strength. As an example, these are stated behind the grade, color, and staple descriptions as Micronaire minimum 4.0 or a range, Pressley minimum 75,000 pounds. These mean that the cotton must test accordingly, but within certain tolerances which are stated in the sale contract.

Price

The price is usually expressed in United States cents per pound and is either fixed (final) or "on call." Since the institution of a CCC cotton export sales program, practically all the business is done at a fixed price because CCC sells its cotton at a fixed price.

A fixed price means a price where both the basis (premiums and discounts on or off the futures month) for a certain quality and the price of the futures month are established.

Example:	December N.Y. futures..........................	32.50 cents per pound
	Basis for a certain quality..........................	5.00 cents on
	Fixed price (final price)	37.50 cents per pound

An "on call" price means a price establishing only the basis (premiums or discounts to be deducted from or added to the futures month in example above, "500 on December N. Y.").

When a sale is made "on call," the contract (sale confirmation) specifies when the futures month must be established. The sale is mostly "buyer's call," which means that the buyer sets a time or level when the price of the futures month is to be established--or, as said in the trade, fixed. However, the contract frequently provides for fixing the price before shipment to avoid making provisional invoices and a price adjustment later. Invoicing cotton at a provisional price makes it necessary to watch the fluctuations of the futures month and call for margins payments if the provisional price has been set too low because the futures month has gone up.

In prewar days many sales were made in terms of foreign currencies, and even today some sales, particularly to Liverpool, are made in pence per pound.

Making sales in currency other than dollars necessitates selling the foreign exchange, i. e., selling a foreign exchange contract for the amount of foreign currency involved to secure the dollar equivalent. Failure to "hedge" the foreign exchange can be as disastrous as failing to hedge the futures month in the price of cotton.

Hedging

At this point it seems necessary to say a few words about the "hedging" of sales and purchases of cotton. Hedging can be called price insurance, although it is not complete protection because there are two components in the final (fixed) price of cotton. These components are (1) the futures month and (2) the basis (premiums and discounts) for the various qualities at a given location for actual (also called "spot") cotton. A hedge insures only against price fluctuations of the futures month on which the basis of the cotton is based. Futures are sold against a purchase of actual cotton and futures are bought against a sale. There is no proper hedge against the basis

(premiums and discounts) for a purchase or sale of actual (spot) cotton, except perhaps to keep an even "basis position," i. e., a position where purchases and sales of actual (spot) cotton bought and sold "on call" and at "fixed price" balance irrespective of quality. An even basis position does, however, minimize the risk.

Futures

The futures month on which the merchant bases the price of a purchase or sale of actual (spot) cotton for near delivery is normally a near month, i. e., November shipment on December futures. There are exceptions, of course, when the near month is considered too low or too high depending on whether futures are sold or bought. Forward purchases or sales are normally based on the distant months. The proper placing of hedges, buying or selling cotton futures, is an intricate matter which requires close study.

The cotton futures markets in the United States are New York, New Orleans, and Chicago.

The fluctuations in the United States futures markets are limited to 200 points (or $10.00 per bale) during the day.

There are also cotton futures markets in Liverpool, Bremen, Le Havre, Bombay, Karachi, São Paulo, and Alexandria (Egypt). U. S. exporters may use Liverpool at times for hedging purposes, but the others are used today only by local cotton merchants.

Price Calculations

All U. S. cotton is exported high-density compressed for the reason that it saves space on the steamer and the exporter thus obtains a lower freight rate. When an exporter has put his cotton shipside, high-density compressed, he has to add charges for the following items, depending on the terms of the sale:

C.i.f..........	Tare[1]	Freight	Insurance	Sale commission	Payment (bank charges)	Foreign controlling
C.&i...........	...do...	....	...do.....	...do.....	...do.....	Do.
C.&f...........	...do...	Freight	....	...do.....	...do.....	Do.
F.o.b., f.a.s..	...do...	....	....	...do.....	...do.....	Do.

[1] Usually about 4 percent for conversion from gross weight to net weight.

If the sale is made on certified shipping weights or Form A Certificate class or with special marks, or if additional samples are required, or if there are any consular fees on the shipping documents, charges must be added for these.

Terms of Delivery

The delivery terms cover the basis on which the cotton is to be delivered to the foreign buyer or importer. The commonly used terms for cotton are f. o. b. (free on board) steamer in the United States, f. a. s. (free alongside steamer) in the United States, c. i. f. (cost, insurance, freight) a foreign port, c. &i. (cost and insurance) a foreign port, c. &f. (cost and freight) a foreign port, ex-warehouse abroad (mostly applicable to consignment stocks abroad), f. o. w. (free on wagon) in a foreign country, and f. o. b. (free on board) in a foreign country.

Weights

In addition to the above terms the method of settling the weights is added, i. e., "actual tare, mutual net landed weights, no franchise" or "certified shipping weights," etc. In the case of mutual net landed weights the weight and the excess tare are established at port of destination by the exporter's and importer's representatives. The exporter appoints a cotton controller to represent him at port of destination at weighing, taring, sampling (also for arbitration purposes if needed), and examining for country damage to cotton, if any. With "certified shipping weights,"

which are established at port of shipment by United States sworn weighers, there are no claims to be made. The usual tare permitted is about 4 percent, depending on the type of bagging--jute, sugar cloth, or cotton--and any excess can be claimed. "No franchise" means that no variation in weight is allowed. If a variation in weight is allowed, it is expressed in a percentage figure, i. e., 1/2 percent, 1 percent, etc. This means that the weight can vary one way or the other up to a certain percentage without weight claims. The franchise, if any, must be considered by the exporters in their price calculations.

American cotton is traded on a "gross weight" basis (tare is included) in the United States, while abroad it is sold on a net weight basis. This makes it necessary to establish the actual tare (bagging and ties) and deduct it from the gross weight.

In cotton sale-price calculations the question of gains and losses in weight must be considered. Generally these considerations are based on climatic conditions existing in the country of destination at time of arrival and in the United States at time of shipment. Failure to include an allowance for probable losses in weight in the sale-price calculation can be costly to the exporter. On the other hand, gains in weight at destination are also considered.

Arbitration

As a part of the terms the arbitration to be used is also mentioned, i. e., Liverpool, Barcelona, Le Havre, Bremen, Ghent, Milan, Rotterdam, Bombay, Osaka, etc. Arbitrations involve mainly quality differences but also misunderstandings of contract terms or noncompliance with them. Liverpool arbitration provisions are the oldest and best known, and are used more than any of the others. Even some countries as far away from Liverpool as India and the Philippines use Liverpool arbitration. On the other hand, the Osaka arbitration is not used outside of Japan. Switzerland and Austria use Bremen, Liverpool, Le Havre, Ghent, or Milan arbitration. In many instances an "informal settlement" is used. This means that both parties, buyers and sellers, appoint arbitrators from expert cotton men in the foreign country. An amicable settlement is also made where buyer and seller agree to an allowance.

As an illustration of the above, the terms of a contract may read: c.i.f. Bombay, actual tare, mutual net landed weights, no franchise; Liverpool arbitration.

Destination and Shipment or Delivery Period

The destination is usually a seaport in the foreign country. However, in the Netherlands, where Rotterdam is the usual port of destination, sales are also made c.i.f. Enschede, which is a mill center and a port in the interior of the country.

Sales are made for a specific shipment period from a port in the United States or for a specific delivery or arrival period in the country of destination.

The shipment period can be immediate or prompt (shipment within 14 days), or by a specified steamer, or during a certain month or months. In sales for a shipment period, the cotton must be delivered to a steamship company during the period stated, but the steamer need not necessarily sail during that period. If a specific sailing is required, it is so stated in the contract.

Exporters obtain either an on-board bill of lading or a port or custody bill of lading. Port or custody bills of lading may require an on-board endorsement.

In sales for a delivery period, the cotton must be delivered on a certain date or during a certain period in a foreign country. Delivery sales, which require correct calculation of the time that it takes a steamer to reach destination, are not as frequent as shipment sales. "Arrival" means the period during which the steamer must arrive at destination.

Freight

The exporter must keep well posted on the freight situation for shipments to the various countries he sells to. In all large cotton markets the various steamship companies have offices or there are freight brokers who supply the exporters up-to-date information on freight rates and on available steamers for the various destinations.

If an exporter anticipates making a sale for a certain shipping or delivery period, he obtains an option for ocean freight. When he makes the sale he books the freight firm. It is then necessary for him to deliver the cotton to the steamship company at the port of departure during the period for which the freight is booked. If he fails to ship, he could be penalized but steamship companies, for the sake of keeping good relations with the trade, usually do not penalize an exporter, except perhaps during a tight freight situation.

The cotton exporters sign an agreement with the conference lines in the various areas of the United States, i. e., the Gulf, East Coast, and West Coast Conferences. The Gulf and East Conferences usually sign a joint agreement with the exporters. These agreements usually are good for the cotton season and guarantee a certain freight rate for the 12-month period. On the other hand, the exporters obligate themselves not to ship on nonconference steamers for the duration of the agreement unless conference steamers are not available at shipping time.

Insurance

On c.i.f. or c.&i. sales, the seller covers the marine risk and war-risk while the cotton is in transit to destination. The seller issues an insurance certificate for this coverage, which is a part of the shipping documents of a c.i.f. or c.&i. sale. On c.&f. sales, the buyer covers both the marine risk and war-risk himself. On f.o.b. or f.a.s. steamer sales, the seller's risk ends when he delivers the cotton to a steamship company.

On c.i.f. or c.&i. sales, buyers usually request the exporters to insure the cotton for about 110 percent of its value so as to take care of price fluctuations in case the cotton has to be replaced by the buyer.

Cotton exporters usually make a contract with an insurance company to cover their stocks and shipments of cotton. Once a week they usually report to the insurance company the receipts of cotton at the various locations, and the shipments to the various destinations. On c.i.f. and c.&.i. sales they issue insurance certificates themselves on forms furnished to them by the insurance company.

Payment

The most common method of payment is a letter of credit, preferably a confirmed irrevocable one, opened by the buyers; against this the seller draws a sight draft with original documents attached. These documents include invoice, bill of lading, insurance certificate, weight sheets, original Form A Certificate for quality (if this is used), and Micronaire certificate. The International Cooperation Administration and Public Law 480 regulations, if the cotton is financed under such programs, require some additional papers to be attached to the draft.

The buyer pays also for the cotton by cable transfer on receipt of a cable from the seller telling him the invoice amount. The documents are then sent by the seller to the buyer by registered airmail or through a bank.

Other forms of payment are cash upon arrival of steamer at port of destination; letter of credit with drafts to be drawn at 30 days, 60 days, etc., sight on a Prime United States bank; cash on delivery ex-warehouse (mostly from consignment stocks abroad); and cash upon presentation of documents at destination. "Cash" usually means cable transfer.

Commission

The rate of commission paid by the seller to his agent averages approximately 1 percent, or can be expressed in cents per bale. This rate is not stated in the sale contract but is included in the agency agreement between shipper and agent.

Agents usually, though not always, have offices at a port, where mills are seldom located; therefore, they often employ subagents in the various interior mill districts. The agent pays a part of his commission to the subagent or the exporter figures it separately. Of course, if an agent can deal by telephone direct with a mill in the interior, he need not have a subagent to contact the mills.

Claims

Claims generally involve weight losses or gains and quality allowances. These, unlike fire, theft, loss and certain damage to the bales while in transit, cannot be covered by insurance. Penalties for late shipments and other forms of noncompliance with contract terms can also be included in the category of claims. All claims are paid separately by exporters to the importers except that gains in weight naturally have to be paid by importers to exporters. Differences in weight are unavoidable because of the different climatic conditions in the various parts of the world. Quality claims arise mostly from differences in opinion, though at times they are attributable to the careless selection of the proper cotton for shipment against a specific quality.

The exporter specifies in the sales contract or the invoice the controller he wishes to represent him at port of destination. The controller's responsibility is to weigh, tare, and sample the cotton upon arrival. The charges for these services are paid by the shipper, who includes these controlling fees in his sales price.

Other Terms

Various clauses covering features of the sale are inserted in the sale contract. Following are some examples of these clauses:

"Lighterage if any, at port of discharge for account of buyer."

"Sellers are not responsible for delays or losses caused by Government regulations, strikes, lockouts, fires, riots, civil commotions, shortage of labor, or other causes beyond their control."

"In case of impossibility on account of any reason of force majeure, this contract shall be regulated by mutual settlement of the resulting difference."

"This contract is subject to the Special (Fair Practice) rules of the American Cotton Shippers Association."

These clauses vary among exporters and depend on the country of destination.

The specimen sale confirmation that follows is based on the terms discussed above. The form of these confirmations varies with the different shippers, but the specimen is representative of what a sale confirmation usually contains.

SPECIMEN
SALES CONFIRMATION
D. E. & CO.

Sale No.____________ Date________

Messrs. A. B. & Co.
Bremen, Germany

Dear Sirs:

We confirm having sold to you today the following raw cotton:

Through:	F. G. & Co. (Agents)
No. of Bales:	1,000 bales
Quality:	U. S. Middling one-inch staple, Orleans/Texas, Micronaire minimum 3.8
Price:	35.50¢ per lb.
Terms:	CIF Bremen, actual tare, mutual landed weights, no franchise, Bremen arbitration
Destination:	Bremen
Shipment:	250 b/c monthly April 1958 through July 1958
Insurance to be covered by:	Sellers
Reimbursement:	Sight draft against confirmed irrevocable letter of credit on Prime United States bank
Controllers:	X. Y. & Co., Bremen
Remarks:	This contract is subject to the rules of the Bremen Cotton Exchange

Sellers are not responsible for delays or losses caused by government regulations, strikes, lockouts, fires, riots, civil commotions, shortage of labor or other causes beyond their control.

Accepted:______________ D. B. & Co.

By______________

COTTON BUYING PRACTICES IN FOREIGN COUNTRIES

The buying practices outlined below apply in most cases to both United States and foreign cottons.

North America

Mills in Canada buy United States cotton through agents of exporters. Some large Canadian mill groups have their own buying offices in the United States.

Western Europe

The cotton business in Austria is split up between Vienna and Dornbirn (Vorarlberg), both in the heart of mill centers. Cotton is sold through agents of cotton exporters or of Bremen, Rotterdam, Le Havre, Hamburg, and Milan merchants in Vienna and Dornbirn (Vorarlberg). Some business is also handled by agents in Switzerland.

Practically all the sales of cotton to mills in Belgium are made by agents in Ghent, Antwerp, and Brussels, representing cotton exporters. Some agents deal as merchants who also sell beyond the borders of Belgium.

In Denmark cotton exporters have agents in Copenhagen who sell to mills; there are no cotton merchants.

In Finland cotton is sold to mills through agents of cotton exporters in Helsinki; there are no cotton merchants.

In France cotton is sold partly through agents and partly through merchants to mills. Exporters have either agents or direct connections with Le Havre or Paris merchants. These Le Havre and Paris agents in turn have subagents in mill centers like Lille, Roubaix, Rouen, Lyons, and Mulhouse. There are also some exporters' agents in Lille. Since World War II many merchants and agent firms in Le Havre have opened offices in Paris. The port of Le Havre remains the most important port in France where cotton is stored and the spot market is still active. Dunkirk and Marseilles are the other cotton ports. The move of the French cotton trade to Paris was caused by the fact that the French Government's buying offices during and after World War II were located there.

The U. S. cotton business in West Germany is concentrated in Bremen; Hamburg merchants and agents in Hamburg concentrate on growths other than United States cotton, although some Hamburg firms handle all growths. United States cotton exporters have most of their agents in Bremen, but a small number of exporters have direct connections with Bremen cotton merchants. Some exporters have direct agents in mill districts. Before World War II, the large Bremen cotton merchants sent their own men to buy cotton in the United States. Agents and merchants both sell to mills. Some mills have direct buying connections in the United States with cotton merchants or brokers.

The Bremen and Hamburg merchants and agents have subagents in the mill districts such as Nordhorn, Rheine, Rheydt, Stuttgart, Augsburg, and München-Gladbach. In the Bremen market there are also brokers who supply offers of the agents to the merchants.

In Greece United States cotton is sold through agents of exporters to mills or Greek cotton merchants.

In Ireland most of the cotton is bought by mills from or through Liverpool firms.

In Italy exporters are represented by agents in Milan, the main cotton center of Italy. There are cotton merchants in Milan who buy cotton direct from United States exporters or through agents and resell to mills.

The agents in turn have subagents in the Milan, Turin, Venice, Naples, and other mill districts.

For the Netherlands most of the cotton is sold by agents of cotton exporters in Enschede or Rotterdam, principally in Enschede, which is located in the heart of the Dutch mill center. In Rotterdam there are some cotton merchants who may also do business outside the Netherlands.

Norway has no cotton merchants, and all the cotton is sold direct to mills by exporters and through agents of cotton exporters in Oslo or Bergen.

In Portugal a few of the agents of cotton exporters are located in Lisbon; most, in Oporto. These agents sell to mills. Some also merchandise cotton. Oporto is the principal mill district in Portugal.

In Spain the cotton is bought at auction by members of the Centro Algodonero, under its auspices and subject to government approval. The agents of cotton exporters in Barcelona make the offers to the Centro. In prewar days there were some Spanish firms that merchandised cotton.

In Sweden the cotton is sold to mills through agents of the exporters. Most agents are located in Gothenburg; a few, in Stockholm.

In Switzerland the cotton is sold to mills through agents of cotton exporters, and the cotton business is concentrated in Zurich. A few Swiss firms also act as merchants.

In the United Kingdom some exporters have agents. Others have direct connections with Liverpool and Manchester merchants. Agents and merchants both sell to mills. A few United States exporters, on the other hand, have an interest in British merchant firms. For several years during and after World War II, cottons were purchased through the Raw Cotton Commission, a government organization. This practice has been discontinued.

Communist Countries

United States cotton can be sold to Communist countries provided an export license is obtained.

Bulgaria, East Germany, Hungary and Rumania used to have agents of cotton exporters and subagents of merchant firms in Bremen, Hamburg, Rotterdam, Le Havre, Liverpool, Milan, and other places. Now the cotton is bought through government organizations.

In Czechoslovakia cotton exporters sell direct to a central government buying office, "Centrotex," in Prague.

In prewar days there were agents of cotton exporters and of Bremen, Hamburg, Rotterdam, Le Havre, and Liverpool merchants in the mill centers of Czechoslavakia: Reichenberg, Prague, Nachod, and others.

Like Czechoslovakia, Poland has no cotton agents or merchants. Exporters offer direct to a central government buying organization, "Textilimport," in Lodz. The recent buying of Public Law 480 cotton has been done by representatives of "Textilimport" in Washington. Prior to World War II, there were agents of cotton exporters and European merchants in Lodz, the center of the mill district.

For the Soviet Union a textile syndicate buys all the cotton imported.

There are at present no cotton agents or merchants in Yugoslavia. The cotton exporters make offers direct to the government central buying organizations, "Centro Textil" in Belgrade, "Jugo-Tekstil Impex" in Ljubljana, or "Textil" in Zagreb. United States cotton is sometimes bought through representatives of these government organizations in New York.

Prior to the Communist regime, China was a large cotton-importing market. The activities were concentrated in Shanghai, where the agents of exporters were located. Some of the mills have moved now to Formosa or Hong Kong.

Asia and Oceania

In Australia cotton is bought by mills from agents of cotton exporters.

Several years ago, in Burma, the only United States cotton bought (under International Cooperation Administration procurement) was handled through the Burmese Government for the government-owned mill. The same was true for the recent purchase of United States cotton under Public Law 480 agreements.

Ceylon's limited cotton industry bought its cotton in the past through cotton agents of United States exporters in Bombay. An expansion of the cotton textile industry could change this situation.

Hong Kong has liberalized cotton imports. The cotton is sold through agents of the exporters to the mills.

India has in Bombay an old and well-established cotton trade which includes agents, brokers, and merchants. The Indian mills buy foreign cotton through agents of cotton exporters or through Indian merchants. Bombay agents and merchants have subagents in the principal mill centers of Madras, Cawnpore, Ahmedabad, Coimbatore, and Calcutta.

In Indonesia, in the past when most of the mills were connected with foreign mills (Dutch and British), or had foreign capital, the buying of cotton was in fact done by the foreign interests abroad. Now the cotton is purchased through the government buying agency.

In the past Iraq bought foreign cotton direct from cotton exporters. This country is not a regular user of foreign cotton.

In Israel cotton is bought by Israeli mills through agents of exporters.

In Japan cotton exporters sell cotton to Japanese merchants through their agents in Osaka. These merchants in turn alone sell to mills. No agents deal direct with mills. These merchants may also buy cotton direct from exporters.

Some of the large Japanese merchant firms have branches or affiliates in the United States that buy cotton direct from the farmers, gins, United States merchants, and CCC (under the present export sales program), like any United States cotton exporter.

The only foreign cotton Korea buys today comes from the United States. There are no agents or merchants; the cotton is bought in a group by the Cotton Spinners and Weavers Association of Korea in Seoul, which has an office in Washington. It is expected that the Korean mills will want to buy the cotton individually sooner or later.

Lebanon buys United States cotton from American exporters direct. There are few cotton agents in Lebanon.

In the Federation of Malaya no cotton spinning mills have been constructed as yet.

Pakistan, like India, also has an old and well-established cotton trade in Karachi, which includes agents, brokers, and merchants. Pakistani mills buy foreign cotton through agents of cotton exporters, or Pakistani merchants.

In the Philippine Republic, there are agents of cotton exporters in Manila who sell to the mills. A few mills buy direct from exporters. Some mills or their affiliate companies have offices in the United States that buy direct from United States cotton shippers.

In Singapore, the only mill buys its cotton through Hong Kong agents of United States cotton exporters.

South Vietnam's cotton textile industry is not yet sufficiently developed to have an established system for purchasing foreign cotton.

In Taiwan, most of the buying of United States cotton under aid programs is done for the mills by the Taiwan Cotton Purchasing Association, Taipei. However, some purchases are made in Washington by the Chinese Technical Mission. There are a few agents in Taipei representing

cotton exporters. These agents handle only the business done with the Taiwan Cotton Purchasing Association, and the direct business with mills, which still remains small.

In Thailand, small amounts of United States cotton were bought in the past by direct contact with agents of United States exporters in Hong Kong or Karachi. It is possible, however, that exporters may in the future appoint agents in Bangkok.

South America and the Caribbean

Mills in Argentina buy foreign cotton through agents of cotton exporters or direct from exporters.

In Bolivia, foreign cotton is bought through government offices.

Chile, Cuba, Colombia, Ecuador, Uruguay, and Venezuela buy cotton through agents of cotton exporters in their countries.

In the Dominican Republic and Jamaica, cotton is bought direct from exporters by the mills.

Africa

In Ethiopia cotton in the past has been bought by the only cotton mill direct from cotton exporters. However, the industry is growing and the system of buying will change.

In Morocco, cotton is bought through firms in France, which have connections with the mills in Morocco. The system may change now that Morocco has attained independence, and the mills may either buy direct from exporters or through agents of exporters.

Southern Rhodesia bought United States cotton for the first time in 1956. These purchases were handled direct between the only mill there and United States cotton exporters, or through agents of cotton exporters in the Union of South Africa.

In the Union of South Africa, United States cotton is sold through agents of cotton exporters here.

Before World War II, markets like China, India, Indonesia, Japan, the Philippines, Australia, South America, South Africa, and the Balkan States were only worked by a few United States exporters. Today a great many more cotton exporters sell in these countries and areas. Hong Kong increased its industry only after the Communists took over China and some Chinese mills moved to Hong Kong. Korea and Taiwan (Formosa) imported cotton through Japan in prewar days while under Japanese control.

Since the end of World War II, new or bigger markets have opened up for United States cotton in countries like Indonesia, Hong Kong, Pakistan, the Philippines, Singapore, Israel, and Ethiopia.

HANDLING OF COTTON ABROAD

Cotton imported on a c.i.f. or c.&f. basis by an agent of an exporter is delivered to the buyer at the port. The buyer is either an importer (cotton merchant) or a mill. If the buyer is a mill the cotton is most likely shipped immediately to the mill warehouse. If the buyer is a merchant the cotton is either delivered to a mill at the port or shipped to a warehouse at the port for storage. If shipments against a c.i.f. sale are made "guaranteed through," i.e., with weights, tare, and quality guaranteed, the weight and tare are established on arrival at the port and the quality is checked by the buyer from the samples taken at the port. When buyers, principally mills, buy f.o.w. at the port, the agent of the exporter arranges for loading the cotton in cars or trucks. Consignments are sold ex-warehouse or f.o.b. warehouse.

Cotton merchants or importers abroad have almost the same problems or activities as United States cotton exporters. They have to take care of hedging, insuring, financing, storing, and shipping.